

Message Text

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64

ACTION EUR-25

INFO OCT-01 IO-13 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 L-03 H-02 SS-15 NSC-10

CEA-02 STR-08 PA-03 PRS-01 USIA-12 RSR-01 /169 W

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R 271716 Z JUN 73

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 5418

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LOND

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS UNN

C O N F I D E N T I A L EC BRUSSELS 3562

PASS TREASURY, FRB AND CEA

E. O.11652: GDS

TAGS: EFIN, EEC

SUBJ: SUPPORT FOR LIRA

REF: ROME 5874

1. SUMMARY. SOURCES IN THE EC COMMISSION HAVE
TOLD US THEY BELIEVE ITALY HAS ACTIVATED STAND- BY
CREDITS UNDER THE SHORT- TERM MONETARY SUPPORT
ARRANGEMENTS FOR ESSENTIALLY PSYCHOLOGICAL REASONS
AND, WHILE MAINTAINING THEM FOR THREE MONTHS, DOES
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NOT EXPECT ACTUALLY TO USE THE CREDITS. IN ITS STATEMENT TO THE EC COUNCIL (FINANCE MINISTERS) ON JUNE 28, THE COMMISSION IS EXPECTED TO STATE THAT, IN ITS VIEW, ITALY IS NOW IN A POSITION TO RETURN TO THE EC SNAKE AND THAT THIS MOVE WOULD BE FACILITATED BY GRANTING THE EC MONETARY COOPERATION FUND ADEQUATE MEANS TO PROVIDE SHORT- TERM MONETARY SUPPORT. END SUMMARY.

2. WHILE ADMITTING THEY ARE NOT PRIVY TO ANY SPECIFIC ARRANGEMENT THE EC CENTRAL BANK GOVERNORS MAY HAVE AGREED TO, EC COMMISSION OFFICIAL SHAVE TOLD US CONFIDENTIALLY THAT THEY UNDERSTAND THE ITALIANS DO NOT EXPECT TO USE THE STAND- BY CREDIT OF 1,562.5 MILLION U. A. (UNITS OF ACCOUNT) GRANTED THEM UNDER THE EC SHORT- TERM MONETARY SUPPORT ARRANGEMENTS. RATHER, THEY ITEND TO MAINTAIN THE CREDITS ON A STAND- BY BASIS FOR UP TO THREE MONTHS, WHICH WOULD CARRY THEM BEYOND THE SUMMER TOURIST SEASON INTO THE PERIOD WHEN FOREIGN EXCHANGE RECEIPTS WILL UNDERGO A SEASONAL DECLINE. SHOULD THEY ACTUALLY NEED CREDITS AT THAT TIME, THEY WOULD BE MORE LIKELY TO RESORT TO BILATERAL SWAP FACILITIES OR EURO- DOLLAR BORROWINGS.

3. ALTHOUGH THERE DOES NOT APPEAR TO BE ANY DIRECT LINK AT THIS TIME BETWEEN THESE STAND- BY CREDITS AND ITALY' S RETURN TO THE EC SNAKE, WE UNDERSTAND THE COMMISSION WILL INFORM THE EC COUNCIL (FINANCE MINISTERS) WHEN IT MEETS ON JUNE 28 THAT, IN THE COMMISSION' S VIEW, CURRENT CONDITIONS JUSTIFY ITALY' S RENEWED PARTICIPATION IN THE SNAKE AND THAT SUCH PARTICIPATION WOULD BE GREATLY FACILITATED IF THE MONETARY COOPERATION FUND IS GIVEN ADEQUATE MEANS OF PROVIDING SHORT- TERM MONETARY SUPPORT IN CASES OF TEMPORARY BALANCE OF PAYMENTS DIFFICULTIES. IT SHOULD BE NOTED THAT THE EC SHORT- TERM MONETARY ARRANGEMENTS ARE NOT NEW, HAVING BEEN ESTABLISHED IN FEBRUARY 1970 THOUGH HERETOFORE NEVER CALLED UPON, AND THAT THE COMMISSION' S FORTHCOMING PROPOSALS ARE FOR THE PURPOSE OF ADAPTING THESE CREDITS FOR USE
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UNDER THE AUSPICES OF THE MONETARY COOPERATION FUND.

AN INCREASE IN THE AMOUNT OF SHORT- TERM CREDITS UP TO 10 BILLION U. A. WAS FIRST PROPOSED BY THE COMMISSION TO THE EC COUNCIL ON MARCH 11-12 OF THIS YEAR.

4. IN THE VIEW OF OUR SOURCES, THE ITALIAN MOVE IN

ACTIVATING THE SHORT- TERM MONETARY SUPPORT FACILITIES WAS MORE POLITICALLY THAN ECONOMICALLY MOTIVATED. THESE OFFICIALS BELIEVE ITALY CONSIDERS IT PSYCHOLOGICALLY ADVANTAGEOUS AT THIS TIME TO HAVE SUBSTANTIAL SUPPORT AVAILABLE TO DEFEND THE LIRA IF NECESSARY. MARSHALLING OF STAND- BY CREDITS AND SWAPS COULD ALSO BE CONSIDERED LOGICAL PREPARATORY MOVES SHOULD THE ITALIANS ACTUALLY BE CONTEMPLATING AN EARLY RETURN TO THE SNAKE. OUR SOURCES ALSO BELIEVE ITALY IS ANXIOUS TO PARTICIPATE IN SOME WAY IN THE COMMUNITY' S JOINT MONETARY ARRANGEMENTS AND THEY ARE PLEASED WITH THIS LATEST DISPLAY OF MONETARY COOPERATION IN A COMMUNITY CONTEXT.

5. WE UNDERSTAND THERE WERE INFORMAL CONSULTATIONS IN THE MONETARY AND CENTRAL BANK GOVERNORS COMMITTEES PRIOR TO ACTIVATION OF THE STAND- BY CREDITS AND THAT A WORKING GROUP OF THE MONETARY COMMITTEE WILL MEET FOR CONSULTATION ON THE LIRA SUPPORT MEASURES ON JULY 15, EVEN THOUGH SUCH CONSULTATION, UNDER THE TERMS OF THE SHORT- TERM SUPPORT ARRANGEMENTS, IS ONLY REQUIRED IN THE EVENT THE CREDITS ARE ACTUALLY USED. AS LONG AS THE CREDITS ARE AVAILABLE TO ITALY ON A STAND- BY BASIS, EVEN IF THEY REMAIN UNUSED, THEY CANNOT BE MADE AVAILABLE TO ANY OTHER MEMBER STATE. GREENWALD

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